austinengineering LTD
ABN 60 078 480 136

Annual Report 2004

Contents

Highlights

- Demerger from West Australian Metals Ltd completed in December 2003
- Capital raising closed oversubscribed in January 2004
- Listing on Australian Stock Exchange commenced in March 2004
- Revenue for financial year 2003/2004 of $15.53m
- Earnings before interest, tax, depreciation and amortisation for financial year 2003/2004 of $1.14m
- Net profit after tax for financial year 2003/2004 of $0.68m
- Earnings per share for financial year 2003/2004 of 1.89 cents per share
- Continued focus on the development and utilisation of new welding technology
- Expansion of core business into Western Australia by the acquisition of John's Engineering
- Strong industry outlook

Chairman's Report

Peter G. Fitch
CHAIRMAN

On behalf of the Board of Directors, I have the pleasure of presenting to you the first Annual Report of Austin Engineering Limited.

In the first full year of operation under the new management team a number of important milestones have been reached.

In the 2003/2004 financial year, the Company's Queensland business achieved total revenue of $15.53m and a net profit after tax of $0.68m. These results are the best results achieved by the Queensland business since 1999, reflecting the achievements of management in winning profitable contracts and ensuring that the contracts are completed on target.

The Company's strategy has been to expand its existing business organically with an emphasis on winning large jobs in which the Company can use its robotic welding technology and to build an operations base in Western Australia.

There are a number of major projects in which the Company sees great opportunities to capitalise on the productivity advantage offered by its advanced welding technology, which have progressed to the point where we expect to be submitting tenders in the near future. Success in one of these tenders will provide a strong foundation for the future growth of the Company.

In the interim, the Company is continuing to win profitable work in its traditional structural steel business and from existing product line customers.

On 1 September 2004 the Company added to its Queensland business by acquiring the Perth-based John's Engineering business. The Company will expand the base product lines, introduce new technology and increase the base workload of John's Engineering to enable it to win work on Western Australia-based projects, including larger resource-related projects.

Overall, the industry outlook is strong. It has been widely reported that the resource industry is in a strongly resurgent position and this is reflected by the heavy quotation load currently being tendered by the Company.

Your Directors believe that the Company is now well positioned for growth and to win work on major projects in Australia and overseas.

In recognising the ever-changing requirements of corporate governance within Australia, the Board appointed in April 2004 an additional non-executive Director, Mr Eugene Fung, who brings valuable skills in this area to the Board.

Austin Engineering has a small and dedicated senior management team ably supported by competent staff.

On behalf of the Board I would like to thank them for their dedication and contribution to the success of the Company in 2003/2004, which forms the basis for future growth.

Peter G. Fitch

Chairman

Directors' Report

Your Directors present their report on the Company for the financial year ended 30 June 2004.

Directors

The following persons held the position of Director of the Company during the year, unless otherwise stated:

Michael D. Buckland

Peter G. Fitch
(appointed 10 March 2004)

Peter L. Pursey
(appointed 10 March 2004)

Eugene Fung
(appointed 21 April 2004)

Robert P. Martin
(resigned 19 November 2003)

David A. Hamlyn
(resigned 11 March 2004)

Lindsay A. Colless
(resigned 11 March 2004)

Principal Activities

The principal activities of the Company during the financial year were the manufacture and supply of steelwork and associated products and services for the industrial and resources-related business sectors.

Review of Results and Operations

Results:
The 2003/2004 financial year marked the first full year for the Queensland business under new management and it is pleasing to report the Company is now well underway with implementing its strategy. In summary, the core strategy involved:

- Consolidation of the Company's current workload in its Queensland business.
- Expansion of existing base product lines.
- Introduction of new welding technology.
- Employment of new personnel with industry-wide respect and contacts in larger project work.
- Positioning of the Company to enable it to tender for larger project works with repetitious component fabrication.
- Establishment of a facility in Western Australia to cater for a surging fabrication market.
- The listing of Austin Engineering on the Australian Stock Exchange.

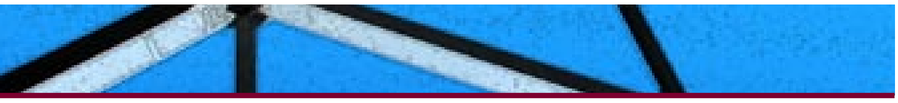
As the Company moves further forward with its strategy, shareholders can expect to see a marked increase in revenue, profit and dividends.

Revenue for the year of $15.53m is a significant increase over prior periods and most pleasing was the Company's ability to receive projects from the international engineering organisation, Bechtel. The Company's revenue was focused around the resources industry with tenders for residential premises declined due to unfavourable commercial terms and conditions.

Earnings before interest, tax, depreciation and amortisation (EBITDA) for the year of $1.14m, or 7.4% of revenue, were in line with internal forecasts for the first year of operation. Included in this figure is the expensing of the Company's welding technology costs, which amounted to $0.34m in the year. The profit from ordinary activities after income tax for the year was $0.68m.

The award of major projects and the use of technology will see increases in EBITDA and the percentage relationship to revenue.

Vibrating screen manufactured for Ludowici Mineral Processing Equipment Pty Ltd



Operations

Business Development:
As explained previously, the Company has positioned itself to tender on major fabrication projects and to date has been contacted by companies such as Bechtel, Fluor and Rusal (Russian Aluminium) in relation to major overseas projects.

The Company is particularly targeting the aluminium smelter industry, where Company personnel have specialist industry knowledge. Technology developed by the Company is geared towards smelter components such as potshells, superstructures, busbar and anodes.

The Company is not only looking at the domestic market but also internationally, from where there have been expressions of interest on the application of our technology on projects. These projects will be manufactured at locations close to the proposed smelters.The number of domestic projects in the resources sector committed or planned over the next five years will provide many commercial opportunities for the Company.

Technology

The Company is committed to the implementation of new welding technology in its projects. The technology is seen as imperative, primarily due to:

- The lack of skilled labour in the market place; and
- International competition.

Robotic Welding operation

Technology developed by the Company has the advantage of:

- Reducing exposure to shortages of skilled labour;
- Obtaining significant increases in deposited weld materials;
- Increased throughput due to decreased welding times;
- Minimal quality defects; and
- Portability for temporary or offsite usage.

The Company is now in a position where it is actively quoting projects with the new technology. Typical projects that have been targeted are those with fabrication of a repetitious nature where gains can be made with maximum economies of scale.

Testing of Narrow Gap Welding processes

West Australian Facility

The Company recently announced the acquisition of John's Engineering in Perth, Western Australia. John's Engineering is one of Western Australia's largest fabrication facilities and the acquisition of it completes the Company's strategy of having facilities on the East and West coasts of Australia to service the resources industry.

John's Engineering

John's Engineering produces a range of excavator buckets for the mining industry and manufactures dump trucks for original equipment suppliers. These product lines will be introduced to the

Company's Queensland facility to further strengthen base work-loading. Screens that are currently built in Queensland will now also be manufactured at John's Engineering's facilities to meet demand in Western Australia.

John's Engineering production facilities

John's Engineering's current work-loading extends into the new calendar year with further orders expected over the coming months. The strategy for John's Engineering will be similar to the strategy behind the original acquisition of the Queensland business in 2003, namely, the consolidation and expansion of base work-loading and the targeting of larger project work that suits the Company's technology.

The business of John's Engineering will operate as a separate business division of the Company and will, for the immediate future, continue to operate as John's Engineering.

Fabrication of dump truck body at John's Engineering

Safety

The Company's performance in relation to safety has been excellent. To pre-qualify on major projects the Company must show a complete obligation to employee safety. Use of the Company's new technology will see further improvements in safety as the automation reduces manual handling and thereby improves safety. The Company maintains a target Lost Time Injury (LTI) frequency rate of zero.

Employees

During the year the Company increased its level of skills by employing key personnel with international experience in the manufacturing and steel fabrication business sectors. The Company has also increased its research team with significant benefits now materialising from the welding and automation aspects of manufacturing and fabrication. Key appointments, which will further enhance the Company's domestic and international credentials, are expected in the coming months.

The year has been one of transition for the existing employees of Austin Engineering and the Directors would like to commend them on their drive and enthusiasm during this period of strategic change and their contribution to the success of the Company.

The number of employees at the end of the financial year totalled 35, compared to 34 at the end of the previous financial year.

Review of Financial Condition

Capital Structure:
During the financial period, 35,705,738 fully paid ordinary shares were issued as follows:

- On 12 December 2003, the Company issued 22,205,738 ordinary shares pursuant to a de-merger from its former ultimate parent Company, West Australian Metals Ltd.
- On 8 March 2004, the Company issued 13,500,000 ordinary shares at a price of 20c per share, being a placement of shares in accordance with the terms of the Company's Replacement Prospectus dated 8 December 2003 and Supplementary Prospectus dated 30 January 2004.

On 18 March 2004, the Company issued 500,000 options over unissued ordinary shares at an issue price of 30c per share expiring on 18 March 2006. Further details of this grant of options is contained in Note 17 of the notes to the financial statements.

Treasury Policy:
The Company continually reviews its current and forward cash positions in order to ensure that sufficient funds and banking facilities are in place to service its operational requirements and meet its obligations to creditors. Cash resources not immediately required to service operations are placed in short-term, high-interest term deposits with Westpac Banking Corporation.

Cash from Operations and Liquidity:
Net cash flows from operations in the financial year ended 30 June 2004 were $1.11m, reflecting the level of profit from ordinary activities achieved during the year and resulting in cash resources of $1.75m at the end of the financial year. This compares with a net cash deficit of $0.14m at the end of the previous financial year.

At the end of the financial year, the Company had access to $0.25m of unused overdraft facilities, as well as $0.18m of unused bank guarantee facilities.

Performance Indicators:
The Board monitors the Company's overall performance, from the implementation of the mission statement and strategic plan to the performance of the Company against operating plans and financial budgets.

The Board have identified key performance indicators (KPI's) that are used to monitor performance. Directors receive the KPI's for review prior to each Board meeting allowing all Directors to actively monitor the Company's performance.

Risk Management

The Company takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board.

The Company believes that it is crucial for all Board members to be a part of this process, and as such the Board has not established a separate risk management committee. Instead, the Board deals directly with issues and risks identified.

The Board will then periodically review the risks faced by the Company to ensure that the objectives and activities are aligned with the risks identified by the Board.

The Board is currently identifying and analysing key elements of an overarching risk management and internal compliance assurance policy.

Significant Changes in the State of Affairs

The Company was admitted to the Official List of the Australian Stock Exchange on 4 March 2004 and official quotation of the Company's securities commenced on 9 March 2004.

The admission of the Company to the Official List of the Australian Stock Exchange evolved through the de-merger of West Australian Metals Ltd's engineering assets from its mining assets. The de-merger was initially announced in March 2003 and again on 16 October 2003. It was approved by West Australian Metals shareholders on 28 November 2003.

The de-merger involved the in-specie distribution to West Australian Metals shareholders of two shares in Austin Engineering Ltd for every nine West Australian Metals shares held on the in-specie record date of 5 December 2003. The in-specie distribution was made on 12 December 2003. Prior to the in-specie distribution, the Company repaid $819,392 of a loan advanced to it by West Australian Metals by the issue of approximately 22.2 million shares to West Australian Metals, which were subsequently distributed to West Australian Metals shareholders by the in-specie distribution. On 11 March 2004, the remainder of the loan owed to West Australian Metals at that time, $1,432,877, and which included $146,500 of the total estimated cost of the listing process, was settled. In addition, a further $150,000 was also paid to West Australian Metals on 11 March 2004 in satisfaction of the remainder of the estimated total cost of the listing process.

The Company changed its status to a Public Company on 28 November 2003.

After Balance Sheet Events

No other matters, except the acquisition of the John's Engineering business as detailed previously in this report, have arisen since 30 June 2004 that could significantly affect the operations of the Company, the results of the Company or the state of affairs of the Company in future financial years.

On 14 June 2004, the Company wrote to all shareholders with unmarketable parcels of shares, based on their shareholdings and the Company's share price as at 11 June 2004, and requested that they confirm their intention to keep their shares by 5.00pm Perth time on 30 July 2004. Notices of intention to keep shares not received by this date would result in the shares being sold, at no cost to the affected shareholders, in accordance with the procedure in section 31 of the Company's constitution and the Australian Stock Exchange Listing Rule 15.13.

By 30 July 2004, of the 1,605 shareholders with unmarketable parcels of shares at that date, only 129 shareholders had elected to keep their shares. The Company proceeded with the sale of the 323,890 shares belonging to the remaining 1,476 shareholders who had not indicated their desire to keep their shares. The sale of the shares was completed on 19 August 2004 and the settlement cheque payments were sent to shareholders on 30 August 2004.

Likely Developments and Expected Results

The Company is continuing to pursue long-term contracts that will enable it to utilise, and gain the benefits of, its new welding technology. It will also continue to investigate and assess other profitable investment opportunities. At this point, disclosure of earnings forecasts for the Company's combined Queensland and Western Australia operations is considered to be premature as the Western Australia operation has only been recently acquired.

Environmental Regulation

The Company operates a blasting and painting facility, the operation of which is subject to environmental regulation. The Company has a current licence to operate the facility.

Information on Directors

At the date of this report the Company has one Executive Director and three Non-Executive Directors:

Executive Director:
Michael D. Buckland,
Managing Director, Age 44

Michael Buckland is a mechanical engineer with 24 years experience encompassing operational, business development and senior management positions with several large engineering organisations. He held a variety of positions with the ANI Group from 1979 to 1998, which were chiefly within fabrication and engineering operations in Australia and overseas. He held various positions up to general management level. He served as Chief Executive Officer of Kirkfield Engineering and Construction Pty Ltd and Minproc Ghana Pty Ltd from 1998 to 2000 and was Chief Executive Officer of aiEngineeering Pty Ltd from 2000 to 2001.

Non-Executive Directors:
Peter G. Fitch,
Non-Executive Chairman, Age 64

Peter Fitch is a qualified engineer who has over 35 years experience in the engineering and mining industries in Australia and overseas. He was previously an Executive Director of ANI with responsibility for Australian and international engineering and construction operations. He is currently Chairman of Oldenberg Stamler Australasia and Oldenberg Mining South Africa.

Peter L. Pursey,
AM, Non-Executive Director, Age 54

Peter Pursey has extensive experience as a Company Director of both listed and non-listed public companies in Australia and the USA. He is experienced in executive management and currently provides corporate advisory and development services to emerging and growth companies, particularly in the areas of strategic planning, capital raising and project management.

Eugene Fung, Non-Executive Director, Age 35

Eugene Fung is a corporate lawyer and partner of the national law firm, Phillips Fox. He advises both listed and unlisted companies regularly on corporate finance matters, mergers and acquisitions, corporate governance and the ASX listing rules. He is a member of the Australian Institute of Company Directors and an Associate of the Securities Institute of Australia and holds a Graduate Diploma in Applied Finance from the Securities Institute.

Information on Company Secretary

Colin M. Anderson, Age 43

Colin Anderson has been Company Secretary since 10 March 2004. He is a Chartered Accountant with 20 years experience encompassing strategic planning, financial control and systems development with a number of engineering and manufacturing companies in Australia and overseas.

Meetings of Directors

During the year, a total of seven Directors' Meetings were held. Attendances by each Director were:

	Number Eligible to Attend	Number Attended
Michael D. Buckland	7	7
Peter G. Fitch	3	3
Peter L. Pursey	3	3
Eugene Fung	2	2
Robert P. Martin	-	-
David A. Hamlyn	4	4
Lindsay A. Colless	4	4

Indemnification of Directors and Officers

During the financial year, the Company has entered into agreements to indemnify the following individuals:

Mr David A. Hamlyn and Mr Lindsay A. Colless:

Indemnity against any liability incurred as former Directors of the Company, including (but not limited to):

- the Director's reasonable legal costs incurred in defending any proceedings brought by any person against them as former Directors, alleging any liability on their part
- all claims and payments for which they may be legally liable as former Directors of the Company

Mr Michael D. Buckland,
Mr Peter G. Fitch, Mr Peter L. Pursey,
Mr Eugene Fung and
Mr Colin M. Anderson:

Indemnity against liability (including costs and expenses) for an act or omission by them in their capacity of Officers of the Company, other than (amongst other things) conduct involving a lack of good faith.

The Company has paid premiums to insure each of the following individuals against liability (including liability for costs and expenses) for an act of omission by them in their capacity as Officers of the Company, other than (amongst other things) conduct involving a wilful breach of duty in relation to the Company:

Mr Michael D. Buckland,
Mr Peter G. Fitch, Mr Peter L. Pursey,
Mr Eugene Fung and
Mr Colin M. Anderson

The total premium paid for all of the above individuals was $9,659.

Proceedings on Behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of these proceedings.

The Company was not a party to any such proceedings during the year.

Corporate Governance

In recognising the need for appropriate standards of corporate behaviour and accountability, the Directors of the Company support the principles of corporate governance. The Company has adopted comprehensive corporate governance policies and processes substantially in accordance with ASX Corporate Governance Council's Principles of Good Governance and they are summarised in the corporate governance statement contained in this annual report.

Signed in accordance with a resolution of the Directors made pursuant to section 298(2) of the Corporations Act 2001.

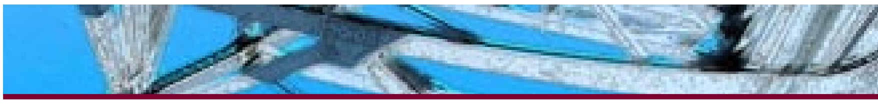
On behalf of the Directors

Michael D. Buckland

Director

24 September 2004

Corporate Governance Statement



Introduction

The Board of Austin Engineering Ltd is committed to protecting shareholders' interests and keeping investors fully informed about the performance of the Company's business. The Directors have undertaken to perform their duties with honesty, integrity, care and diligence, according to the law and in a manner that reflects the highest standards of governance.

The Directors have established the following processes to protect the interests and assets of shareholders and to ensure the highest standard of integrity and governance of the Company.

This corporate governance statement is segmented according to the ten *Principles of Good Governance* recommended by the ASX Corporate Governance Council.

Except as highlighted, the Board believes that since its admission to the official list of the ASX on 4 March 2004, the Company has adopted the spirit of, and demonstrated a commitment to embracing, the ASX Corporate Governance Council's *Principles of Good Governance* as they are relevant to the size and complexity of the Company and its operations. Further, the Board has recently adopted a formal Board Charter, Audit Committee Charter, Audit Policy, External Communications Policy (including a Continuous Disclosure Policy), Securities Trading Policy and Code of Conduct for Directors and Officers. Copies of these codes and policies are available to shareholders on request.

PRINCIPLE 1: LAY A SOLID FOUNDATION FOR MANAGEMENT AND OVERSIGHT

Functions and Responsibilities of the Board and Management

The Directors of the Company are accountable to shareholders for the proper management of business and affairs of the Company.

The key responsibilities of the Board are to:

- establish, monitor and modify the corporate strategies of the Company;
- ensure proper corporate governance;
- monitor the performance of management of the Company;
- ensure that appropriate risk management systems, internal control and reporting systems and compliance frameworks are in place and are operating effectively;
- assess the necessary and desirable competencies of Board members, review Board succession plans, evaluate its own performance and consider the appointment and removal of Directors;
- consider executive remuneration and incentive policies, the Company's recruitment, retention and termination policies and procedures for senior management and the remuneration framework for non-executive Directors;
- monitor financial results;
- approve decisions concerning the capital, including capital restructures, and dividend policy of the Company; and
- comply with the reporting and other requirements of the law.

The Board delegates responsibility for day-to-day management of the Company to the Managing Director, subject to certain financial limits. The Managing Director must consult the Board on matters that are sensitive, extraordinary, of a strategic nature or matters outside the permitted financial limits.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Composition of the Board

The Board presently comprises four Directors, three of whom, including the Chairman are non-executive and independent Directors. The Managing Director is an executive Director. Profiles of the Directors are set out on page 7 of this Annual Report. The profiles outline the skills, experience and expertise of each Director. All Directors (except the Managing Director) are subject to retirement by rotation but may stand for re-election by the shareholders every three years. The terms of the Managing Director's appointment is governed by his terms of engagement.

The composition of the Board is determined by the Board and, where appropriate, external advice is sought. The Board has adopted the following principles and guidelines in determining the composition of the Board:

- *The majority of Directors ought to be independent.*

  To be independent a Director ought to be non-executive and:

  (i) not be a substantial shareholder of the Company or an Officer of, or otherwise associated directly with a substantial shareholder of the Company;

  (ii) not be employed in an executive capacity with the Company in the last three years or been a Director after ceasing to hold such employment;

  (iii) not within the last three years been a principal of professional adviser or a consultant to the Company or an employee materially associated with the service provider, whose annual billings to the Company represent more than 1% of the Company's annual revenue or more than 5% of the professional advisor's or consultant's total annual billings;

  (iv) not be a supplier or customer of the Company or an Officer of, or otherwise associated directly with a supplier or customer whose annual billings to the Company represent more than 1% of the Company's annual revenue or more than 5% of the supplier's or customer's total annual revenue;

  (v) not have a material contractual relationship with the Company other than as Director of the Company;

  (vi) not been on the Board for a period which could materially interfere with the Director's ability to act in the best interests of the Company; and

  (vii) is otherwise free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

- *The Board ought to comprise a wide range of skills and competencies.*

  The Board is responsible for ensuring that there are amongst their number, Directors with appropriate skills and experience to competently discharge their duty to the other stakeholders in the Company and to manage the Company in a manner that protects the interest of all stakeholders and maximises the return to and value of the Company for the Members of the Company. In determining this matter the Board should specifically consider whether it is structured and composed in such a way that it:

  (i) has a proper understanding of, and competence to deal with, the current and emerging issues of the business of the Company; and

  (ii) can effectively review and challenge the performance of management and exercise independent judgement.

Director Selection
When a vacancy exists through whatever cause, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board identifies a panel of candidates with appropriate expertise and experience. A selection procedure is then completed, which includes a review of the candidates' independence, and the Board appoints the most suitable candidate who, in accordance with regulation 3.3 of the Company's constitution, must retire but may stand for re-election at the next annual general meeting of shareholders.

Board Committees
The Board has established an Audit Committee which operates under a formal Charter – see Principle 4. The Directors have not established separate nomination, remuneration or risk management committees as recommended in the Guidelines because these matters are appropriately addressed by the full Board.

Independent Professional Advice
A procedure has been determined for each Director to have the right to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required, but such approval is not withheld unreasonably.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Codes of Conduct
The Company has developed codes of conduct to guide all of the Company's employees, particularly Directors, the Managing Director, the Chief Financial Officer and other senior executives, in respect of ethical behaviour. These codes are designed to maintain confidence in the Company's integrity and the responsibility and accountability of all individuals within the Company for reporting unlawful and unethical practices. These codes of conduct embrace such areas as:

- Conflicts of interest;
- Corporate opportunities;
- Confidentiality;
- Fair dealing and trade practices;
- Protection of assets;
- Compliance with laws, regulations and industry codes;
- Whistle blowing;
- Security trading; and
- Commitment to, and recognition of the legitimate interests of, stakeholders.

Share Trading Policy
Directors and other shareholders are encouraged to be long-term holders of the Company's shares.

For Directors and Officers, the Company has adopted a formal Securities Trading policy. Officers may not deal in any of the Company's securities at any time if they have inside information. An Officer may trade in securities in the four-week period after the release to the ASX of the half-yearly and annual results, the end of the annual general meeting or at any time the Company has a prospectus open, but only if they have no inside information and the trading is not for short-term or speculative gain.

An Officer may trade in securities at other times only if they are personally satisfied that they are not in possession of inside information and have obtained the approval of the Chairman or in the case of any proposed trade by the Chairman, of another non-executive Director nominated by the Chairman for the purpose.

Officers must advise the Company Secretary in writing of the details of completed transactions within two business days following each transaction. Such notification is necessary whether or not prior authority has been required. The Secretary must maintain a register of securities transactions. The Company must comply with its obligations to notify ASX in writing of any changes in the holdings of Securities or interest in Securities by Directors.

PRINCIPLE 4: SAFEGUARDING INTEGRITY IN FINANCIAL REPORTING

Managing Director and Chief Financial Officer certification of financial reports

The Managing Director and the Chief Financial Officer have certified to the Board in writing, prior to Board approval of the 2004 annual financial report, that:

- the Company has in place a financial accounting system to correctly record and explain all transactions and financial position and performance of the Company and that would enable true and fair financial statements to be prepared and audited;
- the Company's financial reports:
  - present a true and fair view, in all material respects, of the Company's financial condition and operating results;
  - are in accordance with relevant accounting standards;
  - are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Audit Committee

The Board established a formal Audit Committee on 24 September 2004 under a separate charter, comprised of:

Mr Peter Pursey (Chairman)

Mr Peter Fitch

Mr Eugene Fung

Each of the members of the Committee are independent non-executive Directors and the Chairman of the Committee is not the Chairman of the Board. Meetings of the Committee may be attended by invitation by the Managing Director and the Chief Financial Officer/ Company Secretary.

All members of the Committee are financially literate (i.e. they are able to read and understand financial statements) and have an understanding of the industry in which the Company operates. However, none of the Committee members are qualified accountants or financial professionals and in this regard, the Committee does not comply with Recommendation 4.3. The Directors do not believe that at this stage the Company is of a size, or has affairs of such complexity, to warrant the appointment of a Director who is a qualified accountant or financial professional. However, the Board will monitor that position regularly and assess the composition of the Audit Committee if circumstances change.

The Audit Committee will provide an independent review of:

- the effectiveness of the accounting and internal control systems and management reporting, which are designed to safeguard Company assets;
- financial information produced by the Company;
- the accounting policies adopted by the Company;
- the quality of the internal and external audit functions;
- external auditor's performance and independence as well as considering such matters as replacing the external auditor where and when necessary; and
- approving internal audit plans including identified risk areas.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Board recognises that the Company as a publicly listed entity has an obligation to make timely and balanced disclosure in accordance with the requirements of the Australian Stock Exchange (ASX) Listing Rules and the Corporations Act 2001. The Board also is of the view that an appropriately informed shareholder base, and market in general, is essential to an efficient market for the Company's securities. The Board is committed to ensuring that shareholders and the market have timely and balanced disclosure of matters concerning the Company. In demonstration of this commitment the Company has adopted a formal external communications policy including a continuous disclosure policy.

In order to ensure the Company meets its obligations of timely disclosure of such information, the Company has adopted the following policies:

- Immediate notification to ASX of information concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities as prescribed under listing rule 3.1, except where such information is not required to be disclosed in accordance with the exception provisions of the listing rules;
- the Company will by 31 March 2005 establish a website and all information disclosed to ASX shall be promptly placed on the Company's website following receipt of confirmation from ASX and, if deemed desirable, released to the wider media; and
- the Company will not respond to market rumour or speculation, except where required to do so under the listing rules.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Communications Strategy

The Board recognises that the shareholders are the beneficial owners of the Company and respects their rights and is continually seeking ways to assist shareholders in the exercise of those rights.

The Board also recognises that as owners of the Company, the shareholders may best contribute to the Company's growth, value and prosperity if they are informed. To this end the Board seeks to empower Shareholders by:

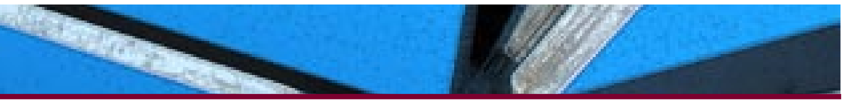
- communicating effectively with shareholders;
- enabling shareholders access to balanced and understandable information about the Company, its operations and proposals; and
- assisting shareholders participation in general meetings.

All shareholders are entitled to receive a copy of the Company's annual and half-yearly reports. In addition, the Company will shortly, by 31 March 2005, provide a website in order to provide opportunities for shareholders to access Company announcements, media releases and financial reports through electronic means.

Participation in Meetings

The Board is committed to assisting shareholders participation in meetings and has adopted the following measures:

- adoption of the ASX Corporate Governance Council's recommendations and guidelines as published in the Council's *Principles of Good Governance and Best Practice Recommendations* in respect of notices of meetings; and
- ensuring that a representative of the Company's external auditor, subject to availability, is present at all annual general meetings and that shareholders have adequate opportunity to ask questions of the auditor at that meeting concerning the audit and preparation and content of the auditor's report.



PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Risk oversight and management policy

The Board carries overall responsibility to all stakeholders for the identification, assessment, management and monitoring of the risks faced by the Company. The Company has in place informal policies and procedures for risk management and expects to document and adopt a formal risk management policy by 31 December 2004 (as required by Recommendation 7.1). Once adopted, it will be available to shareholders on request and, after 31 March 2005, will be available for inspection on the Company's website.

PRINCIPLE 8: ENCOURAGE ENHANCED PERFORMANCE

The Board has determined a process for evaluating the performance of the Board, individual Directors and key executives as follows:

- the non-executive Chairman reviews the performance of each Director and interviews each Director individually on their role as Director and their achievement of goals; and
- Independent members of the Board interview the non-executive Chairman and are responsible for reviewing his performance.

As mentioned previously (refer Principle 2 above), the Directors consider that at this stage, the Company is not of a size nor are its affairs of such complexity to warrant the formation of a separate nomination committee and the responsibilities of the nomination committee are carried out by the full Board.

PRINCIPLE 9: REMUNERATE FAIRLY AND RESPONSIBILY

Remuneration Policy

The Board believes that it is in the interest of all stakeholders in the Company for there to be in place a remuneration policy that:

- attracts and retains talented and motivated Directors, managers and employees so as to encourage enhanced performance of the Company;
- recognises and rewards superior performance by any individual or group to which the individual has made a significant contribution;
- enables the Company's stakeholders and the investment community to understand:

  (i) the costs and benefits of that policy; and

  (ii) the link between remuneration paid to Directors and key executives and the Company's performance.
- distinguishes the structure of non-executive Directors' remuneration from that of executives using the following guidelines for non-executive Directors' remuneration:

  (i) non-executive Directors should not be provided with retirement benefits other than statutory superannuation;

  (ii) non-executive Directors ought to receive equity-based remuneration only under strict controls and subject to shareholder approval; and

  (iii) payment of equity-based executive remuneration should only be made in accordance with such schemes that have been approved by shareholders.

To this end, the Board has established a process of transparency in remuneration matters that relates remuneration to performance and clearly communicates the policy underlying executive remuneration to stakeholders.

Remuneration Objectives and Structure

Remuneration Objectives:
The Board's remuneration objectives are as follows:

- to motivate Directors and management to pursue the long-term growth and success of the Company within an appropriate control framework; and
- to demonstrate a clear relationship between key executive performance and remuneration.

Structure:
The Board has determined that executive remuneration may comprise any of the following:

- Cash salary;
- Shares in the Company and/or options to acquire shares in the Company;
- Other incentive schemes;
- Allowances;
- Provision of motor vehicle;
- Holiday, sick, and long service leave;
- Superannuation;
- Any other component that the Company can lawfully provide to an Officer to salary sacrifice;
- Any other component that the Board considers relevant and desirable; and
- Fringe benefits tax (howsoever called) associated with components of remuneration requested by the Officer to be salary sacrificed.

As disclosed in the Company's prospectus, the executive Director, Mr M.D. Buckland, and the non-executive Directors appointed after the listing of the Company (Messrs Fitch and Pursey) are, subject to shareholder approval, entitled to receive options over unissued shares in the Company as part of their remuneration. Mr E. Fung will also be entitled to receive options in accordance with the terms of his appointment. Shareholder approval for the grant of options to Mr M.D. Buckland and Messrs Fitch and Pursey is required and will be sought at the forthcoming annual general meeting.

The remuneration, and its elements, paid to Directors and the five highest paid executives is set out in note 23 to the financial statements. It is not the policy of the Company to make loans to Directors or executives except on full commercial terms.

Remuneration Committee

As mentioned previously, (refer Principle 2 above), the Directors consider that at this stage, the Company is not of a size nor are its affairs of such complexity to warrant the formation of a separate remuneration committee and the responsibilities of the remuneration committee is carried out by the full Board.

PRINCIPLE 10: RECOGNISE THE LEGITIMATE INTEREST OF STAKEHOLDERS

The Board recognises the interests of stakeholders other than shareholders of the Company. The Company has a number of legal and other obligations to stakeholders such as employees, customers, suppliers and the community as a whole and it is the Board's view that the Company can create value by better managing its natural, human, social and other forms of capital.

Accordingly, the Board has adopted a code of conduct in respect of dealings with these stakeholders to guide Directors, executives and all staff in matters such as:

- shareholder, customer and community relations;
- fair trading and dealing with the Company;
- employment practices; and
- compliance, compliance monitoring and adherence to this code.

Financial Report

Statement of Financial Performance

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2004

	Note	**2004** **$**	2003 $
Revenues from ordinary activities	2	**15,533,234**	1,620,197
Raw materials and consumables expenses		**(7,129,442)**	(686,811)
Employment expenses		**(5,399,015)**	(732,901)
Subcontractor expenses		**(377,998)**	(3,714)
Occupancy and utility expenses		**(658,590)**	(78,144)
Depreciation and amortisation expenses	3	**(263,324)**	(62,040)
Borrowing expenses		**(1,380)**	(6,279)
Other expenses from ordinary activities		**(783,962)**	(234,646)
Profit/(loss) from ordinary activities before income tax expense	3	**919,523**	(184,338)
Income tax expense relating to ordinary activities	4	**(243,289)**	-
Profit/(loss) from ordinary activities after related income tax expense and net profit attributable to members of the Company		**676,234**	(184,338)
Basic earnings per share (cents per share)	5	**1.89**	-
Diluted earnings per share (cents per share)	5	**1.89**	-

The accompanying notes form an integral part of the Statement of Financial Performance.

Statement of Financial Position

AS AT 30 JUNE 2004

	Note	2004 $	2003 $
Current Assets			
Cash assets	6	**1,754,070**	1,100
Receivables	7	**2,775,576**	1,477,635
Inventories	8	**176,933**	151,743
Other	9	**204,560**	193,344
Total Current Assets		**4,911,139**	1,823,822
Non-Current Assets			
Plant and equipment	10	**1,202,673**	1,226,118
Intangible assets	11	**790,095**	845,362
Total Non-Current Assets		**1,992,768**	2,071,480
Total Assets		**6,903,907**	3,895,302
Current Liabilities			
Payables	12	**2,494,340**	3,703,927
Interest-bearing liabilities	13	**10,702**	138,952
Current tax liabilities	14	**243,289**	-
Provisions	15	**229,247**	199,606
Total Current Liabilities		**2,977,578**	4,042,485
Non-Current Liabilities			
Interest-bearing liabilities	16	**21,333**	-
Total Non-Current Liabilities		**21,333**	-
Total Liabilities		**2,998,911**	4,042,485
Net Assets/(Deficiency)		**3,904,996**	(147,183)
Equity			
Contributed equity	17	**3,375,947**	2
Retained profits/(losses)	18	**529,049**	(147,185)
Total Equity		**3,904,996**	(147,183)

The accompanying notes form an integral part of the Statement of Financial Position.

Statement of Cash Flows

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2004

	Note	**2004** **$**	2003 $
Cash flows from operating activities			
Receipts from customers		**15,491,395**	411,508
Payments to suppliers and employees		**(14,425,739)**	(912,023)
Interest received	2	**43,099**	20
Borrowing costs		**(1,380)**	(6,280)
Net cash provided/(used) by operating activities	19b	**1,107,375**	(506,775)
Cash flows from investing activities			
Purchase of business	19c	**-**	(2,076,577)
Purchase of plant and equipment		**(183,835)**	(31,130)
Purchase of licences		**(3,000)**	-
Proceeds from sale of investments		**2,603**	-
Proceeds from sale of plant and equipment		**2,272**	-
Net cash used in investing activities		**(181,960)**	(2,107,707)
Cash flows from financing activities			
Proceeds from issue of shares	17	**2,700,000**	-
Proceeds from borrowings		**35,603**	2,476,630
Repayments of borrowings		**(1,625,649)**	-
Cost of issue of shares and public listing	17	**(143,447)**	-
Net cash provided by financing activities		**966,507**	2,476,630
Net increase/(decrease) in cash held		**1,891,922**	(137,852)
Cash held at the beginning of the year	19a	**(137,852)**	-
Cash at the end of the financial year	19a	**1,754,070**	(137,852)

The accompanying notes form an integral part of the Statement of Cash Flows.

Notes to the Financial Statements

Note 1: Statement of Significant Accounting Policies
The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted in the preparation of this financial report. The accounting policies have been consistently applied with the previous period unless otherwise stated.

(a) Income Tax
The Company adopts the liability method of tax-effect accounting whereby the income tax expense shown in the Statement of Financial Performance is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences, which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income, are brought to account either as a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability becomes payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account, or which may be realised in the future, is based on the assumption that no adverse change will occur in income taxation legislation, and that the Company will derive sufficient future assessable income to enable the benefit to be realised and to comply with the conditions of deductibility imposed by the law.

(b) Cash
For the purposes of the statement of cash flows, cash includes cash on hand and at call, deposits with banks or financial institutions, investments in money market instruments maturing within less than two months and net of bank overdrafts.

(c) Inventories and Work-in-Progress
Inventories consist of raw materials, consumables and work-in-progress and are valued at the lower of cost and net realisable value.

Work-in-progress is stated at the aggregate of contract costs incurred to date plus recognised profits less recognised losses and progress billings. If there are contracts where billings exceed the aggregate costs incurred plus profits less losses, the net amounts are presented under payables.

Contract costs include all costs directly related to specific contracts, costs that are specifically chargeable to the customer under the terms and conditions of the contract and an allocation of overhead expenses incurred in connection with the Company's activities in general.

(d) Plant and Equipment

Plant and equipment is carried at cost less, where applicable, any accumulated depreciation or amortisation. The carrying amount of plant and equipment is reviewed annually by Directors to ensure that it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employed and subsequent disposal. The expected net cash flows have not been discounted to present values in determining recoverable amount.

All fixed assets, including capitalised leased assets, are depreciated using a straight-line basis over their useful lives commencing from the time the assets are held ready for use.

The depreciation rates used for each class of assets are:

Class of Fixed Asset	Depreciation Rates
Plant and Equipment	5% - 33.33%
Furniture and Fittings and Office Equipment	20% - 33.33%
Motor Vehicles	20% - 33.33%
Computer Equipment	33.33%

(e) Intangibles

Goodwill

Where a Company or operation is acquired, the identifiable net assets are measured at fair value. The excess of the fair value of the cost of the acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill and amortised on a straight-line basis over the period which the benefits are expected to arise. The goodwill balances are reviewed annually and any balances representing future benefits for which the realisation is considered to be no longer probable are written off.

Licences

Licences are valued at the cost of acquisition and are amortised over the period over which their benefits are expected to be realised. The balances of licences are reviewed annually and any balances representing future benefits for which the realisation is considered to be no longer probable are written off.

(f) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees. Employee benefits expected to be settled within one year, together with benefits arising from wages and salaries, annual leave and long service leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Benefits paid in relation to sick leave are expensed in the period in which payment is made.

Contributions are made by the Company to employee superannuation funds and are charged to expenses as incurred.

(g) Revenue Recognition

Project revenue and expenses are recognised on an individual project basis using the percentage of completion method when the stage of the project can be reasonably determined, costs to date can be clearly identified and total contract revenue and costs to complete can be reliably estimated.

Profit recognition in general does not commence until a project is at least 75% complete, measured by reference to an assessment of total labour hours incurred to date as a percentage of estimated total hours to complete for each contract. An expected loss is recognised immediately as an expense.

All revenue is stated net of the amount of goods and services tax (GST).

(h) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the Company are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the Company will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(i) Dividends

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

(j) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of the acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

(k) Comparative Figures

Where required by Accounting Standards, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

The comparative financial data for the year ended 30 June 2003 represents the activities of the Company in the year during which the business of Austin Engineering was acquired.

As the acquisition of the Austin Engineering business was only completed on 1 April 2003, the comparative financial data reflects the impact of the Company's new steel fabrication and engineering operations only for the three-month period between April 2003 and June 2003. A comparison of the Company's operations and financial performance between the financial years ended 30 June 2004 and 30 June 2003 must recognise the differing nature and extent of the Company's operations in each of these years.

(l) Adoption of Australian Equivalents to International Financial Reporting Standards

Australia is currently preparing for the introduction of International Financial Reporting Standards (IFRS) effective for financial years commencing 1 January 2005. This requires the production of accounting data for future comparative purposes at the beginning of the next financial year.

The Company's management, along with its auditors, are assessing the significance of these changes and preparing for their implementation. The Directors are currently of the opinion that the key differences in the Company's accounting policies that will arise from the adoption of IFRS are:

Purchased Goodwill:

Under the proposed changes to the IAS22: Business Combinations, goodwill is to be capitalised to the statement of financial position and subjected to an annual impairment test. Amortisation of goodwill is to be prohibited. Current accounting policy of the Company is to amortise goodwill on a straight-line basis over the period which the benefits are expected to arise.

Income Tax:

Currently, the Company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under the Australian equivalent to IAS12, the Company will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

	2004	2003
	$	$
Note 2: Revenue and Segment Reporting		
Revenue from Operating Activities		
Steelwork fabrication activities, within Australia	**15,469,955**	1,614,143
Revenue from Non-Operating Activities		
Rental revenue	**18,669**	5,333
Interest received	**43,099**	20
Other revenue	**1,511**	701
	15,533,234	1,620,197

All of the Company's revenue, profit from ordinary activities before and after income tax expense, assets and liabilities are attributable to steelwork fabrication and associated activities within Australia.

Note 3: Profit from Ordinary Activities

Profit from ordinary activities before income tax has been determined after:

	2004	2003
Depreciation of plant and equipment	**205,057**	47,640
Amortisation of intangible assets	**58,267**	14,400
Operating lease rentals	**389,275**	33,764
Auditors' remuneration for auditing and reviewing the financial report (the Auditors received no other benefits)	**9,928**	1,900

Note 4: Income Tax

The prima facie tax on profit from ordinary activities is reconciled to the income tax
provided in the accounts as follows:

	2004	2003
Profit/(loss) from ordinary activities before income tax	**919,523**	(184,338)
Prima facie tax thereon at 30%	**275,857**	(55,301)
Tax effect of permanent differences:		
Amortisation of intangible assets not deductible	**17,479**	4,320
Research and development expenses	**(7,215)**	(3,166)
Other non-deductible/(non-assessable) expenses	**(7,427)**	18,742
Losses not brought to account	**-**	35,405
Recoupment of prior year tax losses not previously brought to account	**(35,405)**	-
	243,289	-

	2004 $	2003 $
Note 5: Earnings per Share		
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:		
Net profit attributable to members of the Company used in calculating basic and diluted earnings per share	**676,234**	-
	No.	No.
Weighted average number of ordinary shares used in calculating basic earnings per share	**35,705,740**	-
Weighted average number of options outstanding	**8,990**	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	**35,714,730**	-
Basic earnings per share (cents per share)	**1.89cps**	-
Diluted earnings per share (cents per share)	**1.89cps**	-

Note 6: Current Assets – Cash Assets

Cash at bank	**147,701**	-
Term deposits	**1,604,269**	-
Cash on hand	**2,100**	1,100
	1,754,070	1,100

Note 7: Current Assets – Receivables

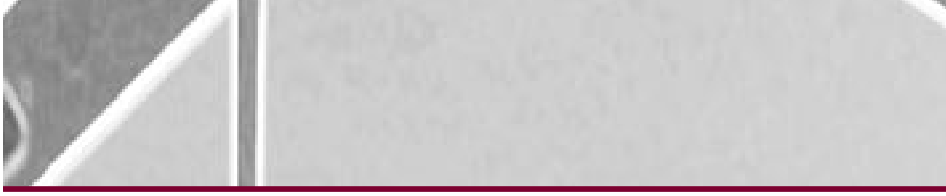
Trade debtors (nil provision)	**2,775,576**	1,477,635

Note 8: Current Assets – Inventories

Raw materials – at cost	**30,000**	30,000
Work-in-progress – at cost	**146,933**	121,743
	176,933	151,743

Note 9: Current Assets – Other

Shares in listed corporations, at market value	**-**	1,100
Prepayments	**75,893**	70,448
Other debtors	**128,667**	121,796
	204,560	193,344



	2004	2003
	$	$
Note 10: Non-Current Assets – Plant and Equipment		
Cost	**1,453,957**	1,273,758
Accumulated depreciation	**(251,284)**	(47,640)
Closing carrying value	**1,202,673**	1,226,118
Opening carrying value	**1,226,118**	-
Additions	**183,835**	1,273,758
Disposals	**(3,636)**	-
Depreciation charge for the year	**(205,058)**	(47,640)
Depreciation on disposals	**1,414**	-
Closing carrying value	**1,202,673**	1,226,118

Note 11: Non-Current Assets – Intangible Assets

Goodwill at cost	**859,762**	859,762
Accumulated amortisation	**(72,000)**	(14,400)
	787,762	845,362
Licences at cost	**3,000**	-
Accumulated amortisation	**(667)**	-
	2,333	-
Closing carrying value	**790,095**	845,362

Note 12: Current Liabilities – Payables

Unsecured liabilities:		
Trade creditors and accruals	**2,494,340**	1,262,452
Amounts payable to ultimate parent company	**-**	2,441,475
	2,494,340	3,703,927

Note 13: Current Liabilities – Interest-Bearing Liabilities

Secured liabilities:		
Lease liability	**10,702**	-
Bank overdraft	**-**	138,952
	10,702	138,952

Security provided for the Company's banking facilities is in the form of a mortgage debenture (fixed and floating charge) over all assets and uncalled capital of the Company. Lease liabilities are secured by a charge over the leased assets.

	2004 $	2003 $
Note 14: Current Liabilities – Current Tax Liabilities		
Income tax payable	**243,289**	-

	2004 $	2003 $
Note 15: Current Liabilities – Provisions		
Employee leave entitlements	**229,247**	199,906

	2004 $	2003 $
Note 16: Non-Current Liabilities – Interest-Bearing Liabilities		
Lease liability	**21,333**	-

	2004 $	2003 $
Note 17: Contributed Equity		
a) Ordinary Shares:		
Opening balance	**2**	2
Issue of 22,205,738 ordinary shares on 12 December 2003	**819,392**	-
Issue of 13,500,000 ordinary shares on 8 March 2004	**2,700,000**	-
Transaction costs relating to share issue	**(143,447)**	-
Closing balance	**3,375,947**	2

On 12 December 2003, the Company issued 22,205,738 ordinary shares pursuant to a de-merger from its former ultimate parent Company, West Australian Metals Ltd.

On 8 March 2004, the Company issued 13,500,000 ordinary shares at a price of 20c per share, being a placement of shares in accordance with the terms of the Company's Replacement Prospectus dated 8 December 2003 and Supplementary Prospectus dated 30 January 2004.

b) Options:

On 18 March 2004, the Company issued 500,000 options over unissued ordinary shares to the following:

	Date of Expiry	Exercise Price	Number Under Option
Mr W. Dransfield	18 March 2006	30 cents	20,000
Mrs A. Dransfield	18 March 2006	30 cents	200,000
Mr K. Dransfield	18 March 2006	30 cents	30,000
Mr and Mrs R. Potter (The Potter Family Account)	18 March 2006	30 cents	75,000
Cerebrus Investments Pty Ltd	18 March 2006	30 cents	100,000
Baker Young Stockbrokers Ltd	18 March 2006	30 cents	75,000

The options issued to Mr W. Dransfield, Mrs A. Dransfield and Mr K. Dransfield were in satisfaction of the on-going provision of technology consulting services to the Company. The options issued to Mr and Mrs R. Potter (The Potter Family Account), Cerebrus Investments Pty Ltd and Baker Young Stockbrokers Ltd were in satisfaction of the provision of services to the Company before and after admission to the official list of the Australian Stock Exchange.

The options may be exercised at any time on or before 18 March 2006 but once issued may only be traded after 18 March 2006. The options are unquoted on the Australian Stock Exchange.

	2004	2003
	$	$

Note 18: Retained Profits/(Losses)

Retained profits/(losses) at the beginning of the financial year	**(147,185)**	37,153
Net profit/(loss) attributable to members of the Company	**676,234**	(184,338)
Retained profits/(losses) at the end of the financial year	**529,049**	(147,185)

Note 19: Cash Flow Information

a) Reconciliation of cash:

For the purposes of the statement of cash flows, cash includes cash on hand and in bank, net of any outstanding bank overdraft. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash on hand and in bank	**1,754,070**	1,100
Bank overdraft	**-**	(138,952)
Total net cash	**1,754,070**	(137,852)

b) Reconciliation of profit/(loss) from ordinary activities after tax to cash flow from operations:

Profit/(loss) from ordinary activities after income tax	**676,234**	(184,338)
Adjustment for non-cash items:		
Amortisation of intangible assets	**58,267**	14,400
Depreciation	**205,057**	47,640
Gain on sale of disposal of investments	**(1,503)**	-
Gain on sale of plant and equipment	**(51)**	-
Changes in assets and liabilities:		
(Increase) in trade debtors	**(1,297,941)**	(1,477,635)
(Increase) in inventories	**(25,190)**	(121,743)
(Increase) in prepayments and other debtors	**(12,316)**	(142,888)
Increase in trade creditors and accruals	**1,231,888**	1,262,457
Increase in income taxes payable	**243,289**	-
Increase in provisions	**29,641**	95,332
Cash flows from operations	**1,107,375**	(506,775)

	2004	2003
	$	$
c) Acquisition of entities:		
During the financial year ended 2003, the business of Austin Engineering was acquired. Details of this transaction are:		
Purchase consideration	**-**	2,076,577
Cash outflow	**-**	2,076,577
Assets and liabilities acquired were:		
Plant and equipment	**-**	1,242,628
Inventories	**-**	30,000
Employee leave entitlements	**-**	(55,813)
Goodwill	**-**	859,762
Total	**-**	2,076,577

d) Use of cash:

The Company used the cash and assets in a form readily convertible to cash that it had at the time of admission to the official list of the Australian Stock Exchange in a way consistent with its business objectives.

Note 20: Capital and Leasing Commitments

a) Finance lease commitments:

	2004	2003
Payable:		
Not later than one year	**10,702**	-
Later than one year but not later than five years	**21,333**	-
Total	**32,035**	-

The finance lease on plant and equipment, which commenced in 2004, is a two-year, fixed term payment lease with an option to refinance at the end. The equipment is being leased from Westpac Banking Corporation.

b) Operating lease commitments:

Operating leases contracted for but not capitalised in the accounts:

	2004	2003
Payable:		
Not later than one year	**389,104**	370,575
Later than one year but not later than five years	**1,171,202**	1,560,306
Total lease liability	**1,560,306**	1,930,881

The operating lease for the Company's premises at 173 Cobalt Street, Carole Park, Brisbane, expires on 31 March 2008 with an option to extend the lease for a further five years. Under the terms of the lease, the Company is liable for rent payments which are reviewed each year in accordance with a specified formula which will ensure that the rent payments will increase by a minimum of 5% annually.

	2004	2003
	$	$
c) Capital expenditure commitments:		
Capital expenditure commitments contracted for:		
Not later than one year	**13,290**	-

Note 21: Finance Facilities

The Company has access to the following banking facilities:

	2004	2003
Overdraft facility	**250,000**	300,000
Utilised	**-**	(138,952)
Unused overdraft facility	**250,000**	161,048
Guarantee facilities	**750,000**	-
Utilised	**(569,522)**	-
Unused guarantee facility	**180,478**	-

Security provided for the Company's banking facilities is in the form of a mortgage debenture (fixed and floating charge) over all assets and uncalled capital of the Company.

Note 22: Financial Instruments

a) Interest Rate Risk:

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities is as follows:

	Average Floating Interest Rate	1 Year or Less
	%	$
2004:		
Financial Assets:		
Cash	4.9	1,751,970
Financial Liabilities:		
Bank overdraft	-	-
2003:		
Financial Assets:		
Cash	-	-
Financial Liabilities:		
Bank overdraft	8.7	138,952

b) Credit Risk:

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient security where appropriate as a means of mitigating the risk of financial loss from defaults. The Company measures credit risk on a fair value basis. There is no significant concentration of credit risk and there are no expectations of non-performance of any obligations.

c) Net Fair Value:

The carrying value of financial assets recorded in the financial statements, net of any allowance for losses, represents the Company's maximum exposure to credit risk.

Note 23: Remuneration of Directors and Executives

a) Amounts paid or payable, or otherwise made available to executive and non-executive Directors of the Company during the year were:

	Salary/Fees	Motor Vehicle Benefits	Total
	$	$	$
2004:			
M.D. Buckland, Executive Director	142,205	4,938	147,143
P.G. Fitch, Non-Executive Director	12,384	-	12,384
P.L. Pursey, Non-Executive Director	10,836	-	10,836
E. Fung, Non-Executive Director	6,808	-	6,808
Total	172,233	4,938	177,171
2003:			
M.D. Buckland, Executive Director	76,300	-	76,300
P.G. Fitch, Non-Executive Director	-	-	-
P.L. Pursey, Non-Executive Director	-	-	-
E. Fung, Non-Executive Director	-	-	-
Total	76,300	-	76,300

b) Amounts paid or payable, or otherwise made available to Executives of the Company are as follows:

	Salary/Fees	Superannuation Contribution	Total
	$	$	$
2004:			
C.M. Anderson	99,842	9,034	108,876
Total	99,842	9,034	108,876
2003:			
C.M. Anderson	23,680	2,100	25,780
Total	23,680	2,100	25,780

Note 24: Related Party Transactions

a) Directors and Executives:

The persons who have held the position of Director of the Company during the year are detailed in page 3 of the Directors' Report.

The following person held the position as an Executive of the Company during the year:

Mr C.M. Anderson, Chief Financial Officer and Company Secretary.

b) Directors and Executives Shareholdings:

The numbers of ordinary shares held directly and indirectly by the Company's Directors and Executives are as follows:

	Balance at the beginning of the financial year	Acquired during the year	Balance at the end of the financial year
	No.	No.	No.
Directors:			
M.D. Buckland	-	1,800,000	1,800,000
Executives:			
C.M. Anderson	-	20,000	20,000
Total	-	1,820,000	1,820,000

c) Director-Related Transactions:

Mr E. Fung is a partner in the law firm Phillips Fox. The firm provided legal services to the Company on normal commercial terms to the value of $1,033 during the year (2003: Nil)

Mr P. G. Fitch is the Chairman of Oldenberg Stamler Australasia. The Company sold goods to Oldenberg Stamler on normal commercial terms to the value of $75,645 during the year (2003: $11,174)

Note 25: Contingent Liabilities

Bank guarantees are issued to third parties arising out of dealings in the normal course of business. The values of guarantees issued are shown in note 21.

Note 26: Post Balance Sheet Events

Acquisition of John's Engineering and Cranes:

On 1 September 2004, the Company acquired the property, plant and equipment and business of John's Engineering and Cranes, an engineering company based in Perth. The cost of acquisition of the business was as follows:

	$
Purchase price	6,900,000
Stamp duty	438,374
Accounting, legal and other advisory costs	75,000
Inventories	149,000
Employee leave liabilities	(347,422)
Net Total	7,214,952

Notes to the Financial Statements (Cont'd)

Of the total net purchase price, $520,000 is deferred and payable no later than 28 October 2004. No interest is payable on this deferred payment.

A separate amount of $375,000 is also deferred until one year after acquisition. Until this date, the seller can convert the deferred payment into fully paid ordinary shares at a conversion price of 50 cents per share, being 750,000 shares. Interest on this deferred payment is payable at 7% per year quarterly in arrears until it is paid in cash or converted into shares.

The net total purchase price, after deduction of the deferred payments, was funded by the provision of $6,100,000 of credit facilities by the Company's bankers and by the utilisation of existing cash resources.

The financial effects of the acquisition of John's Engineering and Cranes are not reflected in the financial statements for the year ended 30 June 2004.

Directors' Declaration

In the opinion of the Directors of the Company:

a) the financial statements and notes, as set out in pages 17 to 32 are in accordance with the Corporations Act 2001 and:

   i) give a true and fair view of the financial position of the Company as at 30 June 2004 and of its performance as represented by the results of its operations and its cash flows for the year ended on that date;

   ii) comply with Accounting Standards and the Corporations Regulations 2001; and

b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

Michael D. Buckland
Director

24 September 2004

Independent Audit Report to the Members of Austin Engineering Limited

Scope

The financial report comprises the statement of financial performance, statement of financial position, statement of cashflows, accompanying notes and the directors' declaration for Austin Engineering Limited, the company, for the year ended 30 June 2004.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory professional reporting requirements in Australia a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our opinion on the basis of these procedures, which included:

- examining on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Whilst we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical requirements and the Corporations Act 2001.

Audit opinion

In our opinion, the financial report of Austin Engineering Limited is in accordance with:

a) the Corporations Act 2001, including:

(i) giving a true and fair view of the company's financial position as at 30 June 2004 and its performance for the year ended on that date; and

(ii) complying with Accounting Standards and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements.

Rothsay

Graham R Swan

Partner

Dated 24th September 2004

The liability of Rothsay Chartered Accountants is limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW).

Additional Information for Public Listed Companies

1. Substantial Shareholders at 16 September 2004:

The names of the substantial shareholders listed in the Company's register are:

Shareholder	Number of Ordinary Shares Held	% Held of Issued Ordinary Capital
Kaplan Funds Management Pty Ltd	1,876,250	5.54
Mr Michael Douglas Buckland	1,800,000	5.04

2. Distribution of Shareholdings at 16 September 2004:

Range of Holding	Number of Shareholders
1 - 1,000	104
1,001 – 5,000	278
5,001 – 10,000	211
10,001 – 100,000	382
100,001 and over	65
	1,040

The number of shareholders with less than a marketable parcel is 105.

3. Voting Rights

All ordinary shares issued by the Company carry one vote per share without restriction.

Additional Information for Public Listed Companies (Cont'd)

4. Twenty Largest Shareholders at 16 September 2004:

	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
ANZ Nominees Ltd	1,216,972	3.408
Mr Michael Douglas Buckland	1,101,379	3.084
Invia Custodian Pty Ltd (Wilson Leaders Limited Account)	910,500	2.550
Permanent Trustee Australia Ltd (KAP0001 Account)	851,200	2.384
Red Centre Pty Ltd	698,621	1.956
Permanent Trustee Company Ltd (KAP0004 Account)	679,000	1.901
Invia Custodian Pty Ltd (WAM Capital Ltd Account)	645,765	1.808
Newfund Pty Ltd (Newing Super Fund Account)	600,000	1.680
Newvest Pty Ltd (Newing Investment Account)	564,444	1.580
Hel Entrepot Nominees No.1 Ltd	557,274	1.560
Invia Custodian Pty Ltd (Loftus Account)	461,000	1.291
UBS Nominees Pty Ltd (Prime Broking Account)	450,000	1.260
S J Quinlivan Pty Ltd	444,444	1.244
Invia Custodian Pty Ltd (WAM Equity Fund Account)	403,567	1.130
Permanent Trustee Australia Ltd (KAP0003 Account)	388,000	1.086
Mr John Yuen	362,777	1.016
Accbell Nominees Pty Ltd	360,188	1.008
Mr Gysbertus Kommer	360,000	1.008
Uniwire Investments Pty Ltd	340,000	0.952
Jaril Pty Ltd (RS Silverton Super Fund Account)	338,000	0.946
	11,733,181	32.852

5. Additional Information

There is no on-market buy-back currently in effect.

The Company has used cash and assets in a form readily convertible to cash at the date of admission in a manner consistent with its business activities.